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SUBJECT: TAJIKISTAN: LAND DEBT RESOLUTION SLOW GOING: MORE DONOR
ASSISTANCE, LESS CONFLICT OF INTEREST NEEDED

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¶1. (SBU) SUMMARY: Tajikistan's impoverished farmers owe over \$292 million in land and cotton debt. The government, international financial institutions and NGOs have long recognized the problem and that solving it takes political will. Conflicting interests in the government have slowed reform, and international donors need to cooperate more closely to make progress. The extent of the problem and gaps in current solution plans mean there is room for the United States to play a larger role in land reform. Land reform, which includes reducing land debt and empowering farmers, could significantly reduce poverty in Tajikistan. END SUMMARY.

THE INDEPENDENT COMMISSION'S FINDINGS

¶2. (U) During a Farm Debt Resolution Conference May 13, Tajikistan's Independent Commission Working Group on farm and cotton debt reported farmers' debts are increasing. Total debts amount to over \$292 million. The government established the commission, led by Matlubkhon Davlatov the State Economic Advisor to the President, to resolve Tajikistan's massive land debt problem. The Commission includes international financial institutions and donors. Commission representatives reminded the audience the government is not to blame, but is taking action to resolve the problem, namely caused by unscrupulous investors, commonly referred to as "futures companies." Investors typically write a "futures contract" with the farmers for a minimum quantity of cotton calculated to repay the value of inputs provided. Investors supply farmers with in-kind technical equipment including seeds and fertilizers at higher than market prices, and typically charge 30% interest until the cotton is sold 15 months later. Investors are responsible for marketing the cotton and return any surplus funds (usually none)

to the farmer.

13. (U) According to the commission, 85% of cotton farms are not profitable. However, the government will attempt to resuscitate farms because it believes cotton is an attractive commodity on the world market. Cotton is the largest agricultural export in Tajikistan and its second largest export overall. Cotton is sent by rail from Tajikistan to Baltic seaports, another inefficiency considering the closer markets of Pakistan, India and China.

14. (U) A baseline study of farm debt ordered by the independent commission shows, among farmers surveyed, the average cotton farmer's salary is 129 somoni per month (approximately \$40) for the entire family. Some families only earn 73 somoni per month (approximately \$23). Farmers explained the most serious economic problems they face are lack of funds, debt accrued, lack of farm machinery and equipment, delayed procurement of resources, and lack of water.

15. (SBU) The majority of farms report receiving instructions from the local government on which cotton ginnery to use and how much cotton they must produce. Investors work closely with the local government and sometimes instruct the local government how to manage the farms. In most cases, the investors also own the gins, so farmers are instructed to use the companies' partner gins.

16. (SBU) The government collects up to 30% of its state revenues from taxes in the cotton sector. The commission called on international assistance to relieve the debt. One reason the investors and local government have control over the farmer is that each district has a tax quota it must deliver to the central government. Therefore, local governments want farmers to use gins within the district to collect taxes and meet their quota. Local government officials have been known to destroy farms that refuse to obey orders.

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17. (U) The study also reports 76% of farmers believe they would be unable independently to sell their cotton harvest themselves without investors. These figures show the need for low-interest loans and to provide technical assistance to farmers to create business plans and skills to negotiate and do business with investors to bring their products to the market. On average, 59% of farmers have never heard of the independent commission established to resolve the land debt crisis. In some districts, no farmers have heard of the commission. Farmers are uneducated and unaware of the comprehensive cotton business in Tajikistan.

NEXT STEPS FOR DONORS

18. (U) USAID Country Director and PolOff have attended a series of international donor meetings led by the Asian Development Bank outlining next steps for the donor community. Meeting participants, including the European Commission, the International Monetary Fund, the International Financial Corporation, the European Bank for Reconstruction and Development and other diplomatic missions, support a unified approach towards the government in order to implement change. Prior to the independent commission's May 13 presentation, ADB advisor Hans Woldring sent Davlatov a memorandum outlining areas where progress has been made towards farm debt resolution, and areas where additional donor assistance is needed.

19. (U) LAND USE CERTIFICATES: Currently, the government owns all land in Tajikistan. Some donors, including the World Bank and USAID, have been working with farmers to issue each farmer a land-use certificate, which in the future would, it is hoped, serve essentially as lease certificates showing the farmer has irrevocable rights from the government to use the land. Donors also hope farmers will have the ability to pledge these land-use certificates as lending collateral for new loans and for the certificates to be tradable, thereby creating a land-use rights

market. Local banks currently charge interest at upwards of 36% to farmers and only for a two to three month period for cash flow purposes. Often banks require collateral, which farmers are not able to provide. Land-use certificates as collateral would allow farmers to take out loans from the banks. The government does not want to privatize land, and donors should make the government aware that allowing for tradable land-use certificates does not require land privatization.

¶10. (SBU) NEW LAND REGISTRATION LEGISLATION: One of the first tasks for the donor community is to approach the Tajik government to suggest redrafting land registration legislation. A draft law may go to parliament in June, allowing the Ministry of Justice (MOJ) to register buildings and other improvements on land. The State Land Committee currently registers all land and will continue to do so. Having two agencies register land parcels and buildings separately with no links between the two databases would be expensive, inefficient, and non-transparent. It would also make the property and potential land market more difficult to manage. Bill Kennedy of ARD/Checchi (USAID) is advising the Tajik government on creating a system to register immovable property and opposes giving the Ministry of Justice registration authority. In his opinion, the entire law needs to be redrafted. The Ministry of Justice does not have proper expertise or resources to start a registration system. (COMMENT: Some donors fear MOJ officials may personally benefit from the registration system, or use the mechanism as a political tool. END COMMENT.)

¶11. (U) A unified registration system, either under one agency or through a common database, would mean a unified tax collection system that would be cheaper and more efficient,

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thereby allowing the government higher tax revenues. Also, a single land registry database would consolidate information, allowing for easier access to more consistent information. It would limit the opportunities for corruption and reduce the number of property disputes. Overall, it would improve the security of land tenure, giving private parties the confidence to invest and further raise the government tax base and facilitate development of a land market.

¶12. (SBU) BETTER REGULATORY OVERSIGHT: USAID organizations are providing legislative reform and regulatory oversight assistance to the government of Tajikistan, as well as providing farmers with legal services and agriculture education programs. They are working with the National Bank of Tajikistan (NBT) to provide assistance on how the NBT can monitor and regulate commercial lending in the agriculture sector, including microfinance banks. USAID will also work with courts to review bankruptcy legislation and analyze contractual agreements between lenders and borrowers. Investors have taken advantage of farmers' lack of knowledge to draft contracts disproportionately beneficial to the investor.

¶13. (U) UNIVERSAL STANDARDS: ADB is also providing support to introduce Universal Cotton Grade Standards. Parliament has already approved the adoption of universal standards, and ADB is working with the government to carefully select an implementer for other market reforms. Introducing cotton grade standards would allow Tajikistan's cotton to be internationally certified, thereby increasing its market value and making it more attractive to international buyers.

ADDITIONAL DONOR SUPPORT REQUIRED

¶14. (U) Additional support is needed in a number of areas. The highest priority is "freedom to farm," meaning reducing local government interference in cotton production. Currently, the government issues quotas and forces farms to grow cotton. However, ADB's letter to Davlatov advises the government to create a profitable business environment for agriculture and allow farmers to decide what crop to grow. If farmers have a sense of ownership of the land, they will be more motivated to run a healthy business. One of the key findings the independent

commission mentioned during the conference is that farmers have little motivation or incentive to produce more cotton. Increased farmer education programs and legislation clearly stating the role of local government will help reduce government interference.

¶15. (U) Additional donor support is also needed to establish alternative financing sources. Donors have already begun providing rural credit. However, resolving old debt, allowing the use of land certificates as collateral, and improving sector profitability still require donor assistance.

¶16. (U) Tax reform assistance is also needed. Each farmer's tax burden is excessive. ADB proposes donors review the tax system, to advise how to adjust the tax base to reduce the burden on the agriculture sector. In addition, the Tajik Universal Goods and Commodity Exchange needs to become a true commodities exchange with linkages to international markets.

¶17. (U) Technical assistance such as seed breeding, implementation of seed quarantine regulations, updating of ginning equipment and farm equipment, introduction of better agricultural chemicals, and additional farmer training is needed, but no donor has taken the lead.

¶18. (SBU) COMMENT: Land debt reform has been hindered by a lack of strong political will from the Tajik government.

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Although in public Rahmonov has urged land reform, sources report the powerful chairman of Tajikistan's National Bank, Murodali Alimardonov has delayed land reform by voicing discouragement along the way. Alimardonov is a significant stake-holder in one of the largest futures companies in Tajikistan—a clear conflict of interest. Many other ministers are frustrated and have expressed dissatisfaction with Alimardonov's meddling.

¶19. (SBU) COMMENT CONTINUED: ADB is attempting to take the lead to coordinate donor efforts, but has faced resistance and withholding of information from some other multi-lateral and bi-lateral donors. International donors plan to meet with Davlatov to discuss their concerns. The solution to land debt requires not only financial assistance, but better cooperation from the international community to not duplicate efforts and solve the problem. Tajikistan's people understand that land debt cripples their economy, but they need strong international advocates to encourage true reform among those power holders in the Tajik government who stand to lose the most, should the futures system be reformed. END COMMENT.
HOAGLAND